

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



19TH DISTRICT AGRICULTURAL ASSOCIATION
SANTA BARBARA FAIR & EXPO
SANTA BARBARA, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

AUDIT REPORT #08-016
FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006

19TH DISTRICT AGRICULTURAL ASSOCIATION
SANTA BARBARA FAIR & EXPO
SANTA BARBARA, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006

AUDIT STAFF

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AUDIT REPORT NUMBER

#08-016

19TH DISTRICT AGRICULTURAL ASSOCIATION
SANTA BARBARA FAIR & EXPO
SANTA BARBARA, CALIFORNIA

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. Edgar Sands, President
Board of Directors
19th DAA, Santa Barbara Fair & Expo
3400 Calle Real
Santa Barbara, California 93105

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 19th District Agricultural Association (DAA), Santa Barbara Fair & Expo, Santa Barbara, California, as of December 31, 2007 and 2006, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 19th DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

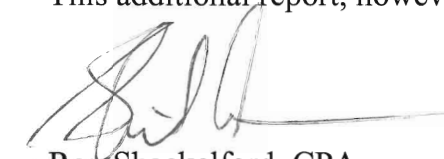
We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 19th DAA, Santa Barbara Fair & Expo, as of December 31, 2007 and 2006, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The 19th DAA, Santa Barbara Fair & Expo has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.



Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #08-016, on the 19th DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 19th DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.



For Ron Shackelford, CPA
Chief, Audit Office

June 27, 2008

**19TH DISTRICT AGRICULTURAL ASSOCIATION
SANTA BARBARA FAIR & EXPO
SANTA BARBARA, CALIFORNIA**

**STATEMENTS OF FINANCIAL CONDITION
December 31, 2007 and 2006**

	Account Number	2007	2006
ASSETS			
Cash	111 - 117	\$ 678,040	\$ 570,211
Accounts Receivable, Net	131,133	70,698	52,636
Deferred Charge	143	-	4,240
Construction in Progress	190	-	23,374
Land	191	213,778	213,778
Buildings and Improvements, Net	192	2,994,083	3,017,313
Equipment, Net	193	9,213	11,563
Capital Lease-Photovoltaic, Net	194	1,473,232	1,532,161
TOTAL ASSETS		<u>5,439,044</u>	<u>5,425,276</u>
LIABILITIES AND NET RESOURCES			
Liabilities			
Accounts Payable, Other Payables	212, 221-226	33,055	53,059
Current Portion of Long Term Debt	212.5	87,157	83,591
Deferred Income	228	77,885	38,019
Guarantee Deposits	241	10,200	10,200
Compensated Absences Liability	245	172,425	155,850
Long Term Debt	250	1,449,666	1,426,794
Total Liabilities		<u>1,830,389</u>	<u>1,767,513</u>
Net Resources			
Net Resources - Operations	291	368,015	369,959
Net Resources - Capital Assets, less Debt	291.1	3,240,641	3,287,804
Total Net Resources Available		<u>3,608,656</u>	<u>3,657,763</u>
TOTAL LIABILITIES AND NET RESOURCES		<u>\$ 5,439,044</u>	<u>\$ 5,425,276</u>

**29TH DISTRICT AGRICULTURAL ASSOCIATION
SANTA BARBARA FAIR & EXPO
SANTA BARBARA, CALIFORNIA**

STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY
Years Ended December 31, 2007 and 2006

	Account Number	2007	2006
REVENUE			
State Apportionments	312	\$ 105,000	\$ 105,000
Capital Project Reimbursement	317-319	29,785	57,093
Other Revenue	340	-	7,445
Admissions	410	158,556	142,428
Commercial Space	415	12,500	13,450
Carnival	421	213,661	204,805
Food Concessions	422-423	45,242	36,168
Exhibits	430	14,298	12,310
Horse Show	440	402,335	384,813
Satellite Wagering	450	395,690	377,649
Miscellaneous Fair	470	55,154	40,380
Miscellaneous Non-Fair	471	246,143	273,227
Non-Fair Revenue	480	1,132,894	1,119,412
Prior Year Adjustment	490	11,255	1,433
Other Revenue	495	37,762	34,332
Total Revenue		<u>2,860,273</u>	<u>2,809,945</u>
EXPENSES			
Administration	500	569,906	562,340
Maintenance and Operations	520	1,007,462	952,964
Publicity	540	73,244	66,178
Attendance	560	56,515	56,096
Miscellaneous Fair	570	23,724	25,401
Miscellaneous Non-Fair	571	174,333	177,233
Premiums	580	19,280	23,221
Exhibits	630	52,150	36,876
Horse Show	640	259,945	242,391
Satellite Wagering Expense	650	355,728	368,920
Attractions - Fairtime	660	36,836	36,514
Prior Year Adjustments	800	31,659	(20,315)
Cash Over/Short from Ticket Sales	850	730	121
Depreciation Expense	900	247,870	253,150
Other Operating Expense	945	-	9,045
Total Expenses		<u>2,909,380</u>	<u>2,790,135</u>
RESOURCES			
Net Change - Income / (Loss)		(49,107)	19,810
Resources Available, January 1		3,657,763	3,637,953
Resources Available, December 31		<u>\$ 3,608,656</u>	<u>\$ 3,657,763</u>

**19TH DISTRICT AGRICULTURAL ASSOCIATION
SANTA BARBARA FAIR & EXPO
SANTA BARBARA, CALIFORNIA**

**STATEMENTS OF CASH FLOWS - REGULATORY BASIS
Years Ended December 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of Revenue Over Expenses (Expenses Over Revenue)	\$ (49,107)	\$ 19,810
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	(18,063)	15,570
(Increase) Decrease in Deferred Charges	4,240	(4,240)
Increase (Decrease) in Current Portion of Long-term Debt	3,567	45,842
Increase (Decrease) in Deferred Income	39,866	(7,488)
Increase (Decrease) in Accounts Payable, Other Payables	(20,004)	(25,100)
Increase (Decrease) in Compensated Absence Liability	16,575	12,594
Increase (Decrease) in Guarantee Deposits	-	200
Total Adjustments	<u>26,182</u>	<u>37,378</u>
Net Cash Provided (Used) by Operating Activities	<u>(22,925)</u>	<u>57,188</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) Decrease in Construction In Progress	23,374	-
(Increase) Decrease in Buildings & Improvements	23,230	(666,142)
(Increase) Decrease in Photovoltaic Capital Lease	58,929	58,929
(Increase) Decrease in Equipmen	<u>2,350</u>	<u>9,992</u>
Net Cash Provided (Used) by Investing Activities	<u>107,883</u>	<u>(597,221)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (Decrease) in Long-Term Liability	<u>22,872</u>	<u>647,975</u>
Net Cash Provided (Used) by Financing Activities	<u>22,872</u>	<u>647,975</u>
NET INCREASE (DECREASE) IN CASH	107,829	107,942
Cash at Beginning of Year	570,211	462,269
CASH AT END OF YEAR	<u><u>\$ 678,040</u></u>	<u><u>\$ 570,211</u></u>

**19TH DISTRICT AGRICULTURAL ASSOCIATION
SANTA BARBARA FAIR & EXPO
SANTA BARBARA, CALIFORNIA**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007 and 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The 19th District Agricultural Association (DAA) was formed for the purpose of conducting an annual horse show. On December 22, 1937, the Board of Directors voted to sponsor, manage, and conduct the Santa Barbara Fair and Expo each year in Santa Barbara, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAA's to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America

requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are capitalized and depreciated. Buildings and improvements are depreciated over a period of 30 years, and purchases of equipment are depreciated over five years. Amounts spent on repair and maintenance costs are expensed as incurred by the Fair. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. Amounts spent on projects that have not been placed in service are recorded in Account #190, Construction-in-Progress and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Sales Taxes – The State of California imposes a sales tax on all of the DAA's sales of merchandise. The DAA collects that sales tax from customers and remits the entire amount to the state Board of Equalization. The DAA's

accounting policy is to exclude the tax collected and remitted to the State from revenues and cost of sales.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2 CASH AND CASH EQUIVALENTS

The following list of cash and cash equivalents were held by the DAA as of December 31:

	<u>2007</u>	<u>2006</u>
Petty Cash & Change Fund	\$ 3,217	\$ 6,697
Cash in Bank - Operating	23,777	45,363
Cash in Bank - Premium	-	-
Cash in Bank - Payroll	1,753	1,328
Cash in Bank – Investment & Savings	<u>649,293</u>	<u>516,824</u>
Total Cash and Cash Equivalents	<u>\$ 678,040</u>	<u>\$ 570,212</u>

NOTE 3 ACCOUNTS RECEIVABLE

The DAA is required to record an allowance for doubtful accounts based on estimates of collectibility.

	<u>2007</u>	<u>2006</u>
Accounts Receivable - Trade	\$ 87,685	\$ 71,993
Accounts Receivable - CCA	6,351	4,078
Allowance for Doubtful Accounts	<u>(23,337)</u>	<u>(23,436)</u>
Accounts Receivable - Net	<u>\$ 70,699</u>	<u>\$ 52,635</u>

NOTE 4 PROPERTY AND EQUIPMENT

Buildings and improvements, equipment and capital lease- photovoltaic at December 31, 2007 and 2006 consist of the following:

	<u>2007</u>	<u>2006</u>
Building & Improvements	\$ 7,414,343	\$ 7,251,155
Less: Accumulated Depreciation	<u>(4,420,260)</u>	<u>(4,233,842)</u>
Building & Improvements - Net	<u>\$ 2,994,083</u>	<u>\$ 3,017,313</u>

Equipment	\$ 268,252	\$ 263,000
Less: Accumulated Depreciation	(259,040)	(251,437)
Equipment – Net	<u>\$ 9,213</u>	<u>\$ 11,563</u>
Capital Lease – Photovoltaic	1,767,878	1,767,878
Less: Accumulated Depreciation	(294,646)	(235,717)
	<u>\$ 1,473,232</u>	<u>\$ 1,532,161</u>

NOTE 5

LONG-TERM DEBT

The DAA has entered into a long-term loan agreement with California Construction Authority (CCA) to finance the Photovoltaic power-generating project, Infrastructure and Marquee projects on the fairgrounds. The terms of the agreement are as follows:

1. CCA Photovoltaic Principal:

Loan Amount	\$613,121
First Payment Date	August 1, 2003
Payment Amount	\$5,875
Duration of Loan	18 years
Interest Rate	5.00% to 5.50%
Total Outstanding at 12/31/07	\$ 443,418

2. F & E Loan Principal:

Loan Amount	\$300,000
First Payment Date	August 1, 2003
Total Outstanding at 12/31/07	\$295,404

Although the CCA and F & E loans are shown separately above, the current year and long-term portions are shown as a combined total:

Current Portion at 12/31/07	\$42,371
Long-Term Portion at 12/31/07	\$696,451

3. CCA Infrastructure Principal:

Loan Amount	\$774,000
First Payment Date	August 1, 2004
Payment Amount	\$5,234
Duration of Loan	40years
Interest Rates	2.70% APR
Total Outstanding at 12/31/07	\$643,186
Current Portion at 12/31/07	\$44,786
Long-Term Portion at 12/31/07	\$643,186

4. CCA Marque Principal:

Loan Amount	\$110,029
First Payment Date	To be determined
Payment Amount	To be determined
Duration of Loan	10 years
Interest Rate	5.5% APR
Total Outstanding at 12/31/07	\$110,029
Current Portion at 12/31/07	To be determined
Long-Term Portion at 12/31/07	\$110,029

The Marquee project loan is a 2008 loan accrued by the Fair. The loan was approved in July 2008, as a result no amortization was provided to the Fair by California Construction Authority for the payments.

NOTE 6

RETIREMENT PLAN

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 7

RECLASSIFICATION

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

**19TH DISTRICT AGRICULTURAL ASSOCIATION
SANTA BARBARA FAIR & EXPO
SANTA BARBARA, CALIFORNIA**

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 19th DAA Board of Directors
1	Chief Executive Officer, 19th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



19TH DISTRICT AGRICULTURAL ASSOCIATION
SANTA BARBARA FAIR & EXPO
SANTA BARBARA, CALIFORNIA

MANAGEMENT REPORT #08-016

YEAR ENDED DECEMBER 31, 2007

19TH DISTRICT AGRICULTURAL ASSOCIATION
SANTA BARBARA FAIR & EXPO
SANTA BARBARA, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2007

AUDIT STAFF

Ron Shackelford, CPA
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Audit Chief
Assistant Audit Chief
Auditor
Auditor

MANAGEMENT REPORT NUMBER
#08-016

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. Edgar Sands, President
Board of Directors
19th DAA, Santa Barbara Fair & Expo
3400 Calle Real
Santa Barbara, California 93514

In planning and performing our audit of the financial statements of the 19th District Agricultural Association (DAA), Santa Barbara Fair & Expo, Santa Barbara, California, for the year ended December 31, 2007, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Santa Barbara Fair & Expo with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 19th DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 19th DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute,



assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 19th DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 19th DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 19th DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 19th DAA and compliance with state laws and regulations, we identified five areas with reportable conditions that are considered weaknesses in the Fair's operations: accounting for cash controls, payroll accounting for temporary employees, delegated and opportunity purchase, accounting for fixed assets, and documentation of food and beverage expenditures. We have provided eleven recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 19th DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

REPORTABLE CONDITIONS

CASH CONTROLS

An examination of the Fair's bank accounts revealed the following internal control weaknesses:

- a. The Fair did not properly account for cash held in their operating account at the year-end. The Fair backdated checks totaling \$4,336 written in January 2008; as a result, the cash account was understated at the year end 2007 financial statements. The practice of "back dating" cash instruments is a departure from generally accepted accounting principles (GAAP), as it does not provide an accurate report of cash as of the year-end cut-off date.
- b. The Fair understated operating and payroll cash accounts by not recording voided checks in the general ledger. An operating check for \$600 and payroll check for \$1,1601 were still listed as outstanding checks, although the actual voided checks were in file, resulting in the understatement of the cash account.
- c. The Fair exposed itself to loss by not performing monthly reconciliation of the ATM (automated teller machine) cash transactions nor did the Fair maintain the trail cassette close tapes and a transaction summary for each month end. The monthly reconciliation serves two purposes, (i) to ensure amounts on hand in the ATM machine, and (ii) to ensure any discrepancies can be detected in a timely manner.
- d. The operating funds held with the Fair's local bank had ending balances over \$100,000 for six of the 12 months in 2007. According to the APM § I, 2.36, Savings Account, "the Federal Deposit Insurance Corporation (FDIC) insures accounts at local institutions up to \$100,000...excess funds will be lost in the event of bank failure". In addition, the APM § I, 2.51 further states, "it is the fair's responsibility to ensure that deposited funds are collateralized in accordance with Government Code § 16520-16522". Based on Government Code § 16520, "security shall not be required for that portion of any deposit that is insured..." therefore, an amount in excess of \$100,000 is required to be collateralized by the bank. This is also a prior year finding.

Recommendations

1. *The Fair should discontinue the practice of "back dating" checks and comply with GAAP, due to the misstatement of cash in the prior period. Checks written in a subsequent accounting period should be recorded in that accounting period.*
2. *The Fair should ensure that all voided checks are reverted in the cash account and are properly recorded in the general ledger.*
3. *The Fair should complete a monthly reconciliation of all ATM activity including monthly transactions, machine print outs, recorded change balances, and bank account balances. This will ensure that all ATM deposits and disbursements agree with entries in the general ledger and amounts reported for financial statements are accurate.*

4. *The Fair should obtain a letter from its bank to ensure that the state funds in excess of the \$100,000 are secured.*

PAYROLL ACCOUNTING FOR TEMPORARY EMPLOYEES

An examination of Payroll Accounting for Temporary Employees revealed the following internal control weaknesses:

- a. The Fair did not have a supervisor review and sign the timecards for their temporary employees during the fair time in April. None of the timecards for the month of April were approved by a supervisor for the temporary employees. According to the Accounting Procedures Manual, all timecards must be reviewed and approved by a supervisor to ensure hours reported as worked by employees are appropriate.
- b. The Fair did not properly account for temporary employees exceeding 1,000 hour limitation in a given fiscal year 06/07. The overtime hours worked by the temporary employees are also counted towards 1,000 hours limitation together with the regular hours. When a temporary employee works in excess of 1,000 hours in a fiscal year, the fair must enroll the employee into PERS.
- c. The Fair allowed seven temporary employees to work in excess of the 119-day limitation within a calendar year. According to Accounting Procedures manual (APM), § 4.34, it is “by law that temporary employees may not work more than 119-days in a calendar year.”

Recommendations

5. *The Fair should comply with the Accounting Procedures Manual by ensuring all the timecards for temporary employees are reviewed and signed by a supervisor before the payroll checks are issued.*
6. *The Fair should ensure it maintains accountability and enroll temporary employees into the Public Employees’ Retirement System once the employees exceed the 1,000 hour limitation in a given fiscal year. Furthermore, the Fair should review prior year payroll records and determine which employees have exceeded the 1,000-hour limitation. These employees should be notified of their options.*
7. *The Fair should comply with the Accounting Procedures manual by ensuring that temporary employees do not work in excess of the 119-day limitation.*

DELEGATED AND OPPORTUNITY PURCHASING

The Fair did not comply with the Accounting Procedures Manual (APM) when making opportunity purchases. The Fair did not obtain written bids for purchases over \$5,000. The Public Contract Code (PCC) §10321 states that local businesses provide opportunity purchases to local fairs that may be purchased locally at a price equivalent or less than the price available through State Purchasing program; however, to claim an opportunity purchase, the Fair must demonstrate and provide copies of bid information or exemption

justification when necessary. Also, per APM §III, 2.2, the Fair must demonstrate that an opportunity purchase meets or beats State price.

Recommendation

8. *The fair should follow PCC and the guidelines in the APM for claiming Opportunity Purchase, which includes obtaining bids and documenting that the price for the opportunity purchase meets or beats state price.*

ACCOUNTING FOR FIXED ASSETS

An examination of the Fair's accounting for fixed assets revealed the following internal control weakness:

- a. The Fair did not properly capitalize the historical cost for several projects completed by the California Construction Authority (CCA), specifically the projects identified as Paving-Repair Asphalt, Light Pole Extension, and Infrastructure. As a result of these omissions, Account #192, Buildings and Improvements, were understated by \$29,785 and the Account #192.1, Accumulated Depreciation-Building and Improvements was also understated by \$5,314 causing overall net resources, to be understated on the year end 2007 financial statements.
- b. The Fair did not always capitalize assets that cost more than \$5,000 and had a useful life of greater than one year. Our office noted the Fair did not capitalize a copier purchased for \$5,253 in 2007. The omission of not capitalizing the asset understated Account #193, Equipment, by \$5,253 and understated Account #193.1, Accumulated Depreciation - Equipment, by \$1,051. Furthermore, overall net resources were understated at the year end 2007 as well.

Recommendations

9. *The Fair should make the necessary correcting journal entries to ensure Account #192, Buildings and Improvements, is properly stated in the Fair's general ledger and property ledger. In the future, the Fair should review the CCA project closeout reconciliation prior to capitalizing an asset. This process will help ensure that the correct historical cost is reported in the Fair's general ledger.*
10. *The Fair should make the necessary correcting journal entry to fairly state Account #193, Equipment, in the general ledger and property ledger. In the future, the Fair should ensure that assets with an acquisition cost of at least \$5,000 and a normal useful life of at least one year are capitalized in the year the equipment is acquired..*

DOCUMENTATION OF FOOD AND BEVERAGE EXPENSES

The Fair did not maintain an adequate level of support for meals and beverage expenditures. Our office noted the Fair did not maintain detailed receipts for meals & beverage expenditures of \$4,041 for a VIP Dinner in 2007. Without a detailed receipt, our office cannot review and verify the expenditure for necessity or reasonableness. According to State policy and policy identified in Fair's and Expositions' Accounting Procedures Manual

(APM), the Fair is required to adequately support meals and beverages purchased for public relations or promotional purposes by listing all persons that were provided the meal and documenting the benefit expected to accrue to the Fair.

Recommendation

11. The Fair should comply with the Accounting Procedures Manual and improve its accounting over food and beverage expenditures by maintaining a detail receipt for all Food and Beverage expenditures. In addition, the names of all persons entertained by the purchase and the benefit expected to accrue to the Fair should be attached to the receipt.

NON-REPORTABLE CONDITIONS

STANDARD 210 AGREEMENTS/INDEPENDENT CONTRACTORS

The Fair did not always prepare and issue Form 1099-Miscellaneous Income, for independent contractors when required. The Fair did not prepare Form 1099-Miscellaneous Income, for two independent contractors. The Fair paid \$4,500 to an entertainer and \$1,050 to the RV manager in 2007, but did not file 1099- Miscellaneous Income form, even though payments were made for the services provided. Failure to issue 1099's significantly reduces Federal and State income tax compliance by the recipient of the payments. According to IRS standards, the fair is required to complete Form 1099 for any independent contractor who earned at least \$600 in a calendar year.

Recommendation

The Fair should ensure that all independent contractors earning at least \$600 in a calendar year are issued a Form 1099- Miscellaneous Income by the fair.

TRAVEL EXPENSE CLAIMS

An examination was completed of the Fair's travel expense claims to ensure compliance with State rules and regulations. Our office noted that the Fair's travel expense claim forms were not always complete. The Travel Claim Forms (TEC) did not always contain claimants and authorizing signatures, indicating a review of expense was performed prior to the payments. In addition, the Fair incorrectly reimbursed incidentals claimed on the first day of the travel. According to the Employee Travel Guide, incidental allowance may be claimed for each complete 24-hour period of travel, beginning from the time departed.

Recommendations

The Fair should ensure that travel expense claims are prepared in accordance with the CDFA Travel guide, using rules, rates and formats cited therein.

The fair should ensure that claims lacking necessary information, signature or documentation should be returned to the claimant for correction prior to making payments.

The Fair should only reimburse incidental cost for each complete 24-hour period of travel. In addition, the Fair should establish a receivable and seek reimbursement from each employee that was overpaid.

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE



PO Box 3250 ♦ 3400 Calle Real ♦ Santa Barbara ♦ CA ♦ 93130-3250

September 8, 2008

Ron Shackleford, CPA
Audit Chief
CDFA Audit Office
1220 N Street, Room 344
Sacramento, CA 95814

Dear Mr. Shackleford,

We have received and reviewed the management letter and Management Report # 08-016 for the 19th District Agricultural Association year ended December 31, 2007.

We have received a total of eleven (11) audit recommendations which we are required to address in writing. Some of the recommendations have already been remedied, some are in the process of implementation and all eleven audit recommendations will be addressed and remedied within the coming year.

We found the auditors assigned to our district, Alicia Lauron and Samprit Kaur, to be professional and courteous. We were able to complete the audit with a minimum of disruption to our ongoing operation.

The following comprise the District's responses to the recommendations contained in Management Report #08-016:

Reportable Conditions

1. The Fair should discontinue the practice of "back dating" checks and comply with GAAP, due to the misstatement of Cash in the prior period. Checks written in subsequent accounting period should be recorded in that accounting period.

Response – The Fair will accrue expenses in the year that they are incurred. The district will not "back date" checks paid in January of a year so that they are accrued in the year in which the expense was incurred.



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2. The Fair should ensure that all voided checks are reverted in the cash account and are properly recorded in the general ledger.

Response – *It is the policy of the 19th District to ensure that voided checks are reverted in the cash account and properly recorded in the general ledger. The District will renew its resolve to adhere to this policy.*

3. The Fair should complete a monthly reconciliation of all ATM activity including monthly transactions, machine print outs, recorded change balances, and bank account balances. This will ensure that all ATM deposits and disbursements agree with entries in the general ledger and amounts reported for financial statements are accurate.

Response – *The 19th District will reconcile all of the ATM activity including transactions, machine print outs, recorded change balances and bank account balances on a monthly basis using a spreadsheet for verification.*

4. The Fair should obtain a letter from its bank to ensure that the state funds in excess of the \$100,000 are secured.

Response – *The District Agricultural Association will make every effort to keep balances in its business banking accounts below \$100,00 and is currently in the pursuit of obtaining a letter from its bank stating that it will secure state funds over \$100,000.*

5. The Fair should comply with the Accounting Procedures Manual by ensuring all the timecards for temporary employees are reviewed and signed by a supervisor before the payroll checks are issued.

Response – *The District will ensure that all timecards for temporary employees are reviewed and signed by a supervisor before the payroll checks are issued.*

6. The Fair should ensure it maintains accountability and enroll temporary employees into the Public Employees' Retirement System once the employees exceed the 1,000 hour limitation in a given year. Furthermore, the Fair should review prior year payroll records and determine which employees have exceeded the 1,000-hour limitation, These employees should be notified with their options. .

Response – *The District will ensure that it maintains accountability and enrolls temporary employees into the Public Employees' Retirement System once the employees exceed the 1,000 hour limitation in a given year. The Fair has reviewed prior year payroll records and determined which employees have exceeded the 1,000-hour limitation, These employees have been be notified of their options*

7. The Fair should comply with the Accounting Procedures manual by ensuring that temporary employees do not work in excess of the 119-day limitation

Response – *The District will make every effort to comply with the Accounting Procedures Manual by ensuring that temporary employees do not work in excess of the 119-day limitation.*

8. The Fair should follow PCC and the guide lines in the APM for claiming Opportunity Purchase, which includes obtaining bids and documenting that the price for the opportunity purchase meets or beats state price.

Response – *The District will follow PCC and the guide lines in the APM for claiming Opportunity Purchase, which includes obtaining bids and documenting that the price for the opportunity purchase meets or beats state price.*

9. The Fair should make the necessary correcting journal entries to ensure Account #192, Buildings and Improvements, is properly stated in the Fair's general ledger and property ledger. In the future, the Fair should review the CCA project closeout reconciliation prior to capitalizing an asset. This process will help ensure that the correct historical cost is reported in the Fair general ledger.

Response – *The District will maintain separate accounts for individual projects and close the accounts at the end of the year so as to fairly ensure that journal entries are properly stated in Account #192. The District will review the CCA project closeout reconciliation prior to capitalizing an asset.*

10. The Fair should make the necessary correcting journal entry to fairly state Account #193, Equipment, in the general ledger and property ledger. In the future, the Fair should ensure that assets with an acquisition cost of at least \$5,000 and a normal useful life of at least one year are capitalized.

Response – *The Fair has made the necessary correcting journal entry to fairly state Account #193, Equipment, in the general ledger and property ledger. In the future, the Fair will ensure that assets with an acquisition cost of at least \$5,000 (including applicable taxes) and a normal useful life of at least one year are capitalized.*

11. The Fair should comply with the Accounting Procedures Manual and improve its accounting over food and beverage expenditures. In addition, the names of all persons entertained by the purchase and the benefit expected to accrue to the Fair should be attached to the receipt

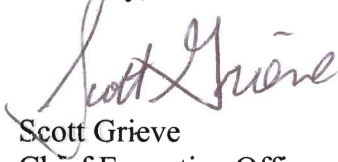
Response – *The District has and will continue to comply with the Accounting Procedures Manual in its accounting over food and beverage expenditures for the Santa Barbara Fair and Expo. The names of all persons entertained at the Pre Fair Media Event and the benefit expected to accrue to the Fair has been provided.*

On Page 6 of the Audit Report, under Note 1 Organization the report erroneously lists the Date that the Board of Directors voted to stage the Santa Barbara Fair and Expo as December 22, 1937 when in fact the vote took place in 1987.

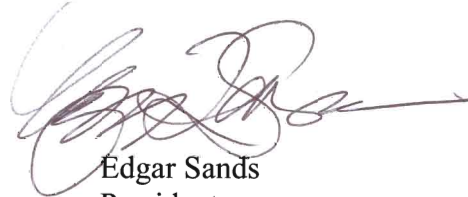
The Board of Directors of the 19th District Agricultural Association sincerely hopes that these are satisfactory responses. It is always the desire of the Board of Directors to comply with all standard practices.

If there is any additional information required or any questions concerning this response please contact us.

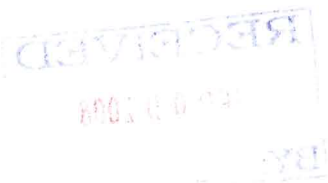
Sincerely,



Scott Grieve
Chief Executive Officer
19th District Agricultural Association



Edgar Sands
President
Board of Directors
19th District Agricultural Association



CDDA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 19th DAA, Santa Barbara Fair and Expo, for its review and response. We have reviewed the response and it adequately addresses the findings contained in this report.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between June 16, 2008 and June 27, 2008. My staff met with management on June 27, 2008 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.



For Ron Shackelford, CPA
Chief, Audit Office

June 27, 2008

REPORT DISTRIBUTION

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1	President, 19th DAA Board of Directors
1	Chief Executive Officer, 19th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office